

PROCEEDS AGREEMENT

Respecting the Custody, Investment, and
Disbursement of Proceeds of Local School
Bonds Purchased by the Virginia Public School
Authority with the Proceeds of Its \$[_____]]
School Financing Bonds (1997 Resolution)
Series 2003 C

Dated November 6, 2003

Among

Virginia Public School Authority
Wachovia Bank, N.A.
Evergreen Investment Management Company LLC

and

[_____]

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This **PROCEEDS AGREEMENT**, dated November 6, 2003 (this “Agreement”), is among the **Virginia Public School Authority**, a public body corporate and instrumentality of the Commonwealth of Virginia (“VPSA”), the [_____] **counties** and [_____] **cities** that are signatories to this Agreement (collectively, the “Local Units”, and each a “Local Unit”), **Wachovia Bank, N.A.**, a banking institution organized under the laws of the United States and having an office in Richmond, Virginia, and **Evergreen Investment Management Company LLC**, a corporation organized under the laws of Delaware and having an office in Richmond, Virginia. All capitalized terms used herein shall have the meaning given to them in Section 2 hereof.

The parties hereto agree and covenant as follows:

Section 1. Recitals.

A. On or before October 1, 2003, VPSA and each of the Local Units entered into a Bond Sale Agreement, pursuant to which VPSA agreed to purchase, and the Local Unit agreed to sell its Local School Bonds.

B. On October 15, 2003, VPSA’s Bonds were awarded at competitive bidding to the Purchaser. The Purchaser is obligated by the terms of its bid to pay the purchase price for the VPSA’s Bonds on the Closing Date. VPSA will apply certain of the proceeds of the sale of VPSA’s Bonds, together with other available funds, to the purchase of the Local School Bonds on November 6, 2003, the Local School Bonds Closing Date. VPSA will also apply certain of

the proceeds of the sale of VPSA's Bonds, together with other available funds, to pay accrued interest and costs of issuance of the VPSA Bonds.

C. The Code imposes requirements on VPSA and the Local Units selling their Local School Bonds to VPSA that must be met if interest on VPSA's Bonds and interest on the Local School Bonds are to be excludable from gross income for federal income tax purposes, including a requirement that in certain circumstances, certain investment income with respect to the Local School Bonds, which income is deemed for federal income tax purposes to be investment income of VPSA's Bonds, be subject to payment, or in lieu thereof certain payments be made, to the United States Treasury.

D. VPSA has determined that in order to fulfill its representations respecting the maintenance of the exclusion of the interest on VPSA's Bonds from gross income for federal income tax purposes, VPSA must establish a mechanism to provide accountability for the custody, investment and disbursement of the proceeds of VPSA's Bonds and the proceeds of the Local School Bonds.

E. It is the purpose of this Agreement to enable VPSA (i) to fulfill the representations mentioned in the preceding subsection; (ii) subject to the constraints of the Code affecting the investment of the proceeds of tax-exempt obligations, to achieve the optimum, practicable income by the professional management of the investment and reinvestment of the proceeds of the Local School Bonds; (iii) to provide for the custody, investment and disbursement of the proceeds of the Local School Bonds, and for the maintenance of appropriate records thereof; (iv) to meet the rebate requirement imposed by Section 148(f) of the Code, in part through the payment of either the Local Unit Rebate Requirement by each of the Local Units or the Penalty if the Penalty Election has been made on behalf of a Local Unit; and (v) to provide

for the allocation and payment of the costs associated with the establishment and maintenance of this Agreement.

F. The purposes set forth in the preceding subsection E shall be accomplished through SNAP. The proceeds of the Local School Bonds shall be invested in accordance with the Information Statement.

Any statements of facts contained in these recitals pertaining to the sale of the VPSA's Bonds and the application of such proceeds, other than the purchase of the Local School Bonds, will not be deemed to be made by the Local Units except to the extent they have knowledge of such facts.

Section 2. Definitions.

In addition to the words and terms elsewhere defined in this Proceeds Agreement including the Exhibits attached hereto, the following words and terms shall have the following meanings:

“Aggregate Local Units Rebate Requirement” shall be the amount calculated pursuant to the Letter Agreement.

“Agreement” or “Proceeds Agreement” shall mean the Proceeds Agreement, dated November 6, 2003, among the Authority, the Local Units, the Depository and the Investment Manager.

“Authorized Representative” shall mean, as applied to VPSA, the Depository, the Investment Manager and the Local Units, the person or each of the persons thereby designated, from time to time, in accordance with and as listed on the page of this Agreement executed by such party.

“Available Construction Proceeds” shall mean, as applied to each Local Unit, the sum of (i) the amount initially deposited to the Principal Account of such Local Unit pursuant to

Section 5 hereof, and (ii) the investment earnings thereon, reduced by the amount of issuance costs financed by such Local Unit's Local School Bonds. In the event that the Local Unit has made the Bifurcation Election on its signature page, "Available Construction Proceeds" shall mean the sum of the amount set forth on the signature page as the portion of the issue used for construction and the investment earnings thereon, reduced by the amount set forth on the signature page as allocable to issuance expenses.

"Bifurcation Election", with respect to each issue of Local School Bonds, shall mean the election made by the Local Unit to treat a portion of its Local School Bonds used for construction as a separate issue pursuant to Section 148(f)(4)(C)(v) of the Code.

"Bond Sale Agreements" shall refer to the respective Bond Sale Agreements, dated as of October 1, 2003, between VPSA and each Local Issuer.

"Capital Expenditure" shall mean any cost of a type that is properly chargeable to a capital account (or would be so chargeable with a proper election) under general federal income tax principles as determined at the time the expenditure is paid with respect to the property.

"Capital Project" shall mean all Capital Expenditures, plus related working capital expenditures to which the de minimis exception provided by Section 1.148-6(d)(3)(ii)(A) of the Treasury Regulations to the proceeds-spent-last rule applies, that carry out the governmental purpose of the Local School Bond issue.

"Closing Date" shall mean, with respect to VPSA Bonds, the date of delivery by VPSA of such Bonds to the Purchaser. The Closing Date is scheduled to be November 6, 2003.

"Code" shall mean the Internal Revenue Code of 1986, as amended.

“Computation Date” shall mean each of the Installment Computation Dates and the Final Computation Date.

“Contract” shall mean the Contract respecting the Virginia State Non-Arbitrage Program, between the Treasury Board of the Commonwealth of Virginia and the Investment Manager, including the Depository Agreement appearing as Appendix A thereto.

“Depository” shall mean Wachovia Bank, N.A., a banking institution organized under the laws of the United States of America and having an office in Richmond, Virginia and its future successors and assigns under the Depository Agreement.

“Eighteen-Month Exception” shall mean the exception to the Rebate Requirement provided by Treasury Regulation Section 1.148-7(d).

“Final Computation Date” shall mean the date the last bond that is part of the issue of VPSA’s Bonds is discharged.

“Gross Proceeds” shall have the meaning given to such term in the Letter Agreement.

“Income Subaccount” shall mean the Income Subaccount established pursuant to Section 4 of this Proceeds Agreement for each Local Unit and (ii) both Income Subaccounts established pursuant to Section 4(b) of this Proceeds Agreement for the [_____] Local Units described therein.

“Income Subaccount Set Aside” shall have the meaning given to such term by Section 9(b) of this Agreement.

“Individual Portfolio” shall have the meaning given to such term in the Information Statement.

“Information Statement” shall mean the current Information Statement describing SNAP, as the same may be supplemented and amended.

“Installment Computation Dates” shall mean November 6, 2008, and each fifth (5th) anniversary date thereafter.

“Investment Manager” shall mean the investment manager of SNAP and its successors and assigns, on the Closing Date being Evergreen Investment Management Company LLC, a corporation organized under the laws of Delaware and having an office in Richmond, Virginia.

“Investment Report” shall have the meaning given to such term in Part A of the Letter Agreement.

“Letter Agreement” shall mean the Letter Agreement, dated the date hereof, attached to this Agreement as Exhibit C.

“Local School Bonds” shall mean general obligation school bonds of a Local Unit having the terms and provisions required by the Bond Sale Agreement.

“Local School Bonds Closing Date” shall mean the Closing Date, except as otherwise provided on the page of this Agreement executed by a Local Unit; provided, however, the Local School Bonds Closing Date with respect to an issue of Local School Bonds shall not be deemed to have occurred until the related Local Unit shall have delivered the Local School Bonds to VPSA and otherwise complied with the terms of its Bond Sale Agreement.

“Local Unit” or “Local Units” shall have the meaning accorded to such term by the first paragraph of this Agreement.

“Local Unit Rebate Computation”, with respect to each issue of Local School Bonds, shall mean a Rebate Computation for each Local Unit made on each Computation Date pursuant to Section 11 of this Proceeds Agreement.

“Local Unit’s Rebate Requirement”, with respect to each issue of Local School Bonds, shall mean the amount payable to the United States Treasury calculated pursuant to the Letter Agreement.

“Penalty” shall mean the amount that must be paid to the United States Treasury pursuant to the Penalty Election.

“Penalty Election”, with respect to each issue of Local School Bonds, shall mean the election made by the Local Unit to pay a penalty in lieu of rebate pursuant to Section 148(f)(4)(C)(vii) of the Code.

“Principal Subaccount” shall mean the Principal Subaccount established pursuant to Section 4(a) of this Proceeds Agreement for each Local Unit and (ii) both Principal Subaccounts established pursuant to Section 4(b) of this Proceeds Agreement for the three (3) Local Units described therein.

“Proceeds Account” shall mean, with respect to each Local Unit, its account established under Section 4 of this Proceeds Agreement.

“Purchaser” shall mean [_____], the bidder offering to pay the lowest true interest cost of VPSA’s Bonds and to which VPSA awarded the VPSA’s Bonds at a competitive sale.

“Rebate Calculation Agent” shall have the meaning given to such term in the Letter Agreement.

“Rebate Computation” shall mean the computation, as of a Computation Date, of the Local Unit Rebate Requirement to such Computation Date. The amount so computed may be a positive or a negative number.

“Rebate Exceptions” shall mean the Spending Exceptions and the Small-Issuer Exception, collectively.

“Rebate Report” shall mean the Local Unit Rebate Computations.

“Rebate Requirement” shall mean the rebate requirement imposed by Sections 148(f)(2) and (3) of the Code.

“Six-Month Exception” shall mean the exception to the Rebate Requirement provided by Section 148(f)(4)(B) of the Code.

“Small-Issuer Exception” shall mean the exception to the Rebate Requirement provided by Section 148(f)(4)(D) of the Code.

“SNAP” shall mean the State Non-Arbitrage Program established pursuant to Article 7.1, Chapter 14, Title 2.1, Code of Virginia, as amended.

“SNAP Documents” shall mean the Information Statement and the Contract.

“Spending Exceptions” shall mean the Six-Month Exception, the Eighteen-Month Exception and the Two-Year Exception, collectively.

“Two-Year Exception” shall mean the exception to the Rebate Requirement provided by Section 148(f)(4)(C) of the Code.

“VPSA” shall mean the Virginia Public School Authority, a public body corporate and instrumentality of the Commonwealth of Virginia.

“VPSA’s Bond Yield” shall mean the Yield on VPSA’s Bonds as set forth in the Letter Agreement. As provided in Treasury Regulation Section 1.148-4(a), the yield on each

issue of Local School Bonds of a Local Unit the interest on which is excluded from gross income shall equal the VPSA's Bond Yield.

"VPSA's Bonds" shall mean the \$[_____] aggregate principal amount of VPSA's School Financing Bonds (1997 Resolution) Series 2003 C.

"Withdrawal Date" shall mean the date as of which an interim Rebate Calculation is made pursuant to Section 9 of this Proceeds Agreement.

"Yield" shall have the meaning accorded to such term by the Letter Agreement.

Section 3. Disposition of VPSA Bond Proceeds.

A. Prior to the Closing Date, each Local Unit will complete and submit, to the Investment Manager, the program registration form and the SNAP account registration form annexed to the Information Statement.

B. On the Closing Date, VPSA will transfer to the Depository for deposit in SNAP, in immediately available funds, an amount equal to the aggregate purchase price of all of the Local School Bonds (\$[_____]).

C. Each Local Unit hereby agrees to adhere strictly to the prescribed and recommended procedures described in the Information Statement. Each Local Unit hereby further agrees that it will not deviate from or request an exception to such procedures without first obtaining the prior written approval of VPSA. In the event of a conflict between the provisions of this Agreement and the Information Statement, the provisions of this Agreement shall control.

Section 4. Establishment of Accounts.

(a) Except as provided in Section 4(b) below, the Investment Manager will establish on its books for each Local Unit one (1) account and two (2) subaccounts therein as follows:

VPSA-(Name of Local Unit) Proceeds Account - Series 2003 C Issue

Principal Subaccount

Income Subaccount

(b) The Investment Manager shall establish on its books for each of [____], within the one (1) Proceeds Account for each such Local Unit, two (2) subaccounts therein, and two subaccounts within each such subaccount, as follows:

VPSA- (Name of Local Unit) Proceeds Account -Series 2003 C Issue

Non Subsidy Subaccount

Subsidy Subaccount

Principal Subaccount

Principal Subaccount

Income Subaccount

Income Subaccount

The amounts in the Principal Subaccounts and Income Subaccounts of each of these Local Units shall be combined for purposes of this Agreement. Requisitions from [_____] shall specify the Subaccount from which moneys are being requisitioned.

If a Local Unit has elected to treat a portion of its Local School Bonds issue used for construction as a separate issue as set forth on its signature page, the Investment Manager shall maintain such records as necessary to determine the portion of the Principal Subaccount and Income Subaccount of such Local Unit allocable to the construction issue and the non-construction issue.

Section 5. Disposition of Local School Bond Proceeds.

A. The Investment Manager shall allocate the proceeds of the Local School Bonds on the Local School Bonds Closing Date(s) to the Local Unit(s), dollar for dollar, in accordance with the respective purchase prices of their Local School Bonds set forth in Exhibit A to this Agreement. There is no accrued interest on the Local School Bonds. Except as

provided in Section 5(B) – ([___]) below, the proceeds of VPSA’s Bonds allocated to each Local Unit shall be credited to the Principal Subaccount of the Local Unit in the amounts set forth in Exhibit A with respect to the Subsidy Local School Bonds and/or the Non-Subsidy Local School Bonds, as the case may be.

B. With respect to [_____].

Section 6. Investment of Principal Subaccount.

The Investment Manager shall invest and reinvest moneys to the credit of the Principal Subaccount of each Local Unit for the benefit of such Local Unit in accordance with the provisions of the Information Statement and Section 18 of this Agreement. The Investment Manager shall credit to the Local Unit’s Income Subaccount all income and profits from the investment and reinvestment of moneys to the credit of its respective Principal Subaccount.

Section 7. Disbursements from Principal Subaccount.

Beginning on its Local School Bonds Closing Date, each Local Unit may at any time withdraw all or any portion of the proceeds of its Local School Bonds credited to its Principal Subaccount (including amounts transferred to the credit of the Principal Subaccount from the Income Subaccount pursuant to Section 9), in accordance with the Information Statement and, in the case of a reimbursement to the Local Unit, by filing with the Investment Manager a requisition or requisitions therefor in the form of Exhibit B to this Agreement signed by an Authorized Representative of the Local Unit. Notwithstanding anything to the contrary in the Information Statement, the Investment Manager agrees that, in the case of a reimbursement to the Local Unit, it shall not disburse any money from the Principal Subaccount unless and until it has received such requisition from the Local Unit.

Section 8. Investment of Income Subaccount.

The Investment Manager shall invest and reinvest moneys to the credit of the Income Subaccount of each Local Unit for the benefit of such Local Unit in accordance with the provisions of the Information Statement and Section 18 of this Agreement. The Investment Manager shall credit to the Local Unit's Income Subaccount all income and profits from the investment and reinvestment of moneys to the credit thereof.

Section 9. Income Subaccount.

A. The Investment Manager will notify a Local Unit and VPSA when the balance to the credit of the Principal Subaccount of such Local Unit shall have been reduced to zero (\$0). Such Local Unit may then withdraw from its Income Subaccount an amount not in excess of the amount then to the credit of its Income Subaccount if the Local Unit qualifies for any one of the Rebate Exceptions or if such withdrawal is necessary to qualify for one of the Spending Exceptions.

1. In order to qualify for the Small-Issuer Exception, the Local Unit must deliver to VPSA and the Investment Manager no later than the end of calendar year 2003 (a) a letter from, or opinion of, nationally recognized bond counsel that the Local School Bonds of such Local Unit purchased by VPSA with the proceeds of the VPSA's Bonds will be treated as meeting the requirements of Code Sections 148(f)(2) and (3), pursuant to Code Section 148(f)(4)(D); and (b) the Local Unit's covenant that it shall provide for the payment or reimburse VPSA for its payment of the Local Unit's Rebate Requirement in the event that the Local School Bonds of such Local Unit fail to meet all of the requirements of the Small Issuer Exception.

2. In order to determine if a Local Unit qualifies for either the Six-Month Exception or the Eighteen-Month Exception, the Investment Manager shall advise each

Local Unit and VPSA of the amount that has been disbursed from the Principal Subaccount and the Income Subaccount of such Local Unit (a) six (6) months from the Local School Bonds Closing Date, (b) twelve (12) months from the Local School Bonds Closing Date, and (c) eighteen (18) months from the Local School Bonds Closing Date. To facilitate such determination, each Local Unit shall set forth on the signature page for such Local Unit the amount of investment proceeds that such Local Unit reasonably expects as of the Local School Bonds Closing Date to earn.

3. In order to determine if a Local Unit qualifies for the Two-Year Exception, the Investment Manager shall advise each Local Unit and VPSA, of the amount of Available Construction Proceeds that has been disbursed from the Principal Subaccount and the Income Subaccount of such Local Unit (a) six (6) months from the Local School Bonds Closing Date, (b) twelve (12) months from the Local School Bonds Closing Date, (c) eighteen (18) months from the Local School Bonds Closing Date, and (d) twenty-four (24) months from the Local School Bonds Closing Date. To facilitate such determination, each Local Unit shall set forth on the signature page for such Local Unit the amount of investment proceeds that such Local Unit reasonably expects as of the Local School Bonds Closing Date to earn and the elections that it requests VPSA to make on its behalf. Furthermore, such Local Unit shall set forth in a certificate delivered to VPSA on the Local School Bonds Closing Date such facts and circumstances as necessary to show that it reasonably expects to qualify for the Two-Year Exception.

4. The portion of the proceeds of the VPSA Bonds applied to purchase the [_____] Bonds and the refunding portions of the

[_____] Bonds do not qualify for the Eighteen-Month Exception or Two-Year Exception.

B. Except to the extent that a Penalty Election has been made on behalf of a Local Unit, if the Local Unit fails to qualify for one of the Spending Exceptions, or is otherwise subject to the Rebate Requirement, then prior to a withdrawal from its Income Subaccount and upon receipt of such notification, the Local Unit shall promptly request, pursuant to the terms of the Information Statement, an interim Rebate Computation with respect to such Local Unit or an estimate of such Local Unit's Rebate Requirement for purposes of determining what amount, if any, to the credit of the Income Subaccount may be subject to rebate. Any estimate of the Local Unit's Rebate Requirement made by the Investment Manager shall also be provided to VPSA in writing. Notwithstanding anything to the contrary in the Information Statement, no disbursement will be made from the Income Subaccount until the aforementioned calculation shall have been made. The amount to the credit of the Income Subaccount that may be subject to rebate is the Income Subaccount Set Aside. On the Withdrawal Date, the Investment Manager shall (i) reserve, in the Income Subaccount, the amount of the "Income Subaccount Set Aside" until the next Rebate Computation required by Section 11 shall have been made and (ii) credit the remaining balance to the credit of the Income Subaccount to the credit of the Local Unit's Principal Subaccount.

Section 10. Investment Losses.

The Investment Manager shall charge any loss realized from the investment or reinvestment of moneys to the credit of the Income Subaccount and the Principal Subaccount of a Local Unit as follows:

1. losses on moneys to the credit of the Principal Subaccount shall be charged thereto; and

2. losses on moneys to the credit of the Income Subaccount shall be charged first to the Principal Subaccount and then to the Income Subaccount.

Section 11. Rebate Computations.

On or before each Computation Date, VPSA will prepare, or cause to be prepared, in accordance with the provisions of the Letter Agreement the Local Unit Rebate Computations. The Local Unit Rebate Computation for each Local Unit shall be made on the basis of the Investment Reports maintained by the Investment Manager for each Proceeds Account. With respect to the amounts on deposit in the [_____] Transferred Proceeds Account, such amounts will be taken into account for purposes of the Local Unit Rebate Computation for [_____] , respectively as applicable, only if the [_____] , respectively as applicable, do not qualify for one of the Spending Exceptions or if the [_____] , respectively as applicable, fail to meet all of the requirements of the Small Issuer Exception.

As set forth in the Letter Agreement, the Local Unit Rebate Requirement shall be calculated separately for each Local Unit. If it is determined, however, that the Local Unit Rebate Requirement is required to be calculated in the aggregate, the Local Unit Rebate Requirement for each Local Unit shall be equal to a percentage of the Aggregate Local Units Rebate Requirement determined by multiplying the Aggregate Local Units Rebate Requirement by a fraction, the numerator of which is the positive Local Unit Rebate Requirement calculated separately and the denominator of which is the sum of all of the positive Local Unit Rebate Requirements calculated separately.

If any provision of this Agreement shall become inconsistent with any regulation or regulations promulgated under Section 148(f) of the Code subsequent to the date hereof, VPSA hereby agrees and covenants to prepare, or cause to be prepared, as soon as practicable, a

Local Unit Rebate Computation for each Local Unit, in compliance with such regulation or regulations, and VPSA, the Investment Manager and each of the Local Units hereby further agree and covenant immediately to make any and all transfers and payments required by Sections 12 and 14 of this Agreement from any moneys on deposit in the Income Subaccount and any other moneys of the Local Unit legally available for such purpose.

Section 12. Transfers to Income Subaccount.

Upon receipt by a Local Unit of the Rebate Report from VPSA, if the amount on deposit in the Local Unit's Income Subaccount (including the Income Subaccount Set Aside) is less than the Local Unit Rebate Requirement of such Local Unit, the Investment Manager shall promptly charge the Principal Subaccount of such Local Unit an amount equal to the deficiency and credit its Income Subaccount such amount.

To the extent that the amount on deposit in the Principal Subaccount is insufficient to remedy the deficiency, the Investment Manager shall advise VPSA and such Local Unit of the amount of the remaining deficiency, and, to the extent permitted by law, the Local Unit agrees to transfer promptly to the Depository, from any funds that are or may be made legally available for such purpose, the amount equal the remaining deficiency.

To the extent that the amount on deposit in the Income Subaccount exceeds the Local Unit Rebate Requirement for the Local Unit, such excess shall be transferred to the Principal Subaccount of the Local Unit.

Section 13. Disposition of Excess Proceeds.

A. When a Local Unit shall certify to VPSA and the Investment Manager that there are balances to the credit of the Local Unit's Principal Subaccount or Income Subaccount that will not be used for Capital Projects prior to November 6, 2006, such amount shall be retained in the Proceeds Account and, to the extent such amount is not required to be deposited

to the Income Subaccount pursuant to Section 12, VPSA will, except as provided in the last sentence of this Section 13A, direct the Depository to apply such amount to redeem such Local Unit's Local School Bonds on the earliest possible date that such Bonds may be called without a penalty or premium. Notwithstanding the foregoing, when a Local Unit shall certify to VPSA and the Investment Manager that it has made an election under Section 148(f)(4)(C)(viii) or (ix) of the Code to terminate the Penalty Election, and that, pursuant to Code Section 148(f)(4)(C)(viii)(III) of such termination election, such Local Unit indicates the amount of Available Construction Proceeds to be applied to the redemption of its Local School Bonds and the date of such redemption, VPSA will direct the Investment Manager and the Depository to apply such amount toward the redemption of such Local Unit's Local School Bonds on the date indicated.

B. In the event that there are any balances remaining on deposit in either the Principal Subaccount or Income Subaccount of any Local Unit on November 6, 2006, such amounts will be invested by the Investment Manager in an Individual Portfolio at a Yield not in excess of the VPSA's Bond Yield or in tax-exempt obligations. With respect to the [_____] Transferred Proceeds Account, in the event that there are any balances remaining on deposit in such account on [_____], such amounts will be invested by the Investment Manager in an Individual Portfolio at a Yield not in excess of the VPSA's Bond Yield or in tax exempt investments.

Section 14. Rebate Payments and Penalty Payments.

A. The Local Unit Rebate Requirement of each Local Unit shall be paid to the United States Treasury at the direction of VPSA on behalf of and for the accounts of the Local Unit and VPSA in accordance with the Letter Agreement.

B. The payment of the Local Unit Rebate Requirement of each Local Unit shall be in partial satisfaction with respect to the VPSA's Bonds, and total satisfaction with respect to the proceeds of the Local School Bonds on deposit in the Proceeds Account, of the requirements of Section 148(f) of the Code except to the extent that such issue of Local School Bonds may be treated as a composite issue under Treasury Regulation §1.150-1(c) with another issue of obligations.

C. Notwithstanding anything to the contrary herein, if VPSA has made the Penalty Election on behalf of a Local Unit and if such Local Unit fails to qualify for one of the Spending Exceptions, then, prior to any further disbursements from the Principal Subaccount or Income Subaccount, the Local Unit shall promptly request, pursuant to the terms of the Information Statement, a computation of the amount of the Penalty that must be paid to the United States Treasury pursuant to the Penalty Election.

If the amount on deposit in the Local Unit's Income Subaccount and Principal Subaccount is less than the amount of the Penalty due by such Local Unit, the Investment Manager shall advise VPSA and such Local Unit of the amount of the deficiency, and to the extent permitted by law, the Local Unit agrees to transfer promptly to the Depository, from any funds that are or may be made legally available for such purpose, the amount of the deficiency. The Penalty of each Local Unit shall be paid to the United States Treasury at the direction of VPSA on behalf of and for the accounts of the Local Units no later than ninety (90) days after the end of the spending period to which the Penalty relates.

Section 15. Duties of VPSA.

VPSA shall carry out its duties and responsibilities under this Agreement and may retain agents, independent contractors and others that it deems qualified to carry out any or all of such duties and responsibilities.

VPSA shall carry out, or cause to be carried out, all of its responsibilities under the Letter Agreement.

VPSA shall retain a copy of all Rebate Computations for at least six (6) years after the retirement of the last of VPSA's Bonds.

VPSA agrees that, except as provided in this Agreement, any rebate liability that VPSA may have on account of the investment and reinvestment of the Gross Proceeds of VPSA's bonds, including, by way of example and not of limitation, any rebate liability as a result of the investment of money credited to funds and accounts created under its bond resolutions or as a result of the advance refunding of its bonds, shall be the sole responsibility of VPSA and not any Local Unit.

Section 16. Duties of the Depository.

The Depository shall carry out its duties and responsibilities under the SNAP Documents and this Agreement.

Section 17. Duties of Local Units.

A. The Local Units will cooperate with VPSA, the Investment Manager and the Depository in order to ensure that the purposes of this Agreement are fulfilled. To that end, each Local Unit covenants and agrees that it will take any and all action and refrain from taking any and all action, as recommended by its bond counsel, to maintain the exclusion from gross income for federal income tax purposes of interest on its Local School Bonds to the same extent such interest was so excludable on the Closing Date.

B. If a Local Unit is required to restrict the Yield on its investments, in order to comply with such covenant or to maintain the exclusion from gross income for federal income tax purposes of the interest on VPSA's Bonds, it shall timely notify the Investment Manager to restrict such Yield to the VPSA's Bond Yield. Each Local Unit agrees not to charge its general

fund or otherwise set aside or earmark funds with which to pay debt service on its Local School Bonds (other than as a budget item) prior to the date of payment thereof to VPSA.

C. Each Local Unit agrees to provide for the payment of its Local Unit Rebate Requirement and/or Penalty and acknowledges that the payment of its Local Unit Rebate Requirement and/or Penalty is necessary to maintain the exclusion from gross income for federal income tax purposes of interest on its Local School Bonds as well as the VPSA's Bonds. Each Local Unit agrees to complete and to provide to VPSA such forms as VPSA may request for filing in connection with the payment of the Local Unit Rebate Requirement and/or Penalty.

D. Each Local Unit hereby covenants and represents that neither the Local Unit nor any related party, as defined in Section 1.150-1(b) of the Treasury Regulations, to such Local Unit, pursuant to any arrangement, formal or informal, will purchase the VPSA's Bonds in an amount related to the amount of Local School Bonds to be acquired from such Local Unit by VPSA.

Section 18. Responsibilities of the Investment Manager.

The Investment Manager shall be the agent of, and serve at the expense of, the Local Units, to manage and direct the temporary investment and reinvestment of all moneys to the credit of the Proceeds Accounts pending their disbursement to the Local Units and to make such computations as required by this Agreement.

In general, the duties of the Investment Manager shall include those described in the SNAP Documents.

In particular, the Investment Manager will direct the investment and reinvestment of moneys to the credit of the Subaccounts of each Local Unit in accordance with the Information Statement, the Contract and this Agreement.

Section 19. Costs.

Costs of SNAP are payable as provided in the Information Statement. The difference in the interest rates between VPSA's Bonds and the Local School Bonds shall be collected and retained by VPSA as partial payment of the administrative costs incurred by VPSA in connection with issuing, carrying, and repaying VPSA's Bonds, and the underwriting discount, if any, and the cost of purchasing, carrying, and selling or redeeming the Local School Bonds. VPSA will not charge any other fee to the Local Units for its services or seek reimbursement for its fees and expenses, including counsel fees, incurred in connection with the discharge of its duties and responsibilities under this Agreement.

Section 20. Opinions of Counsel.

On the Closing Date, VPSA and each Local Unit shall furnish an opinion of counsel addressed, in the case of counsel to VPSA, to all the Local Units, and in the case of counsel to the Local Units, to VPSA, to the effect that the obligations of its client under this Agreement are valid, binding and enforceable against such client in accordance with its terms.

Section 21. Amendment.

This Agreement may be amended only with the consent of all the affected parties; provided, however, that this Agreement shall be amended whenever, in the judgment of VPSA, based on an opinion of its counsel, such amendment is required in order to insure that interest on VPSA's Bonds shall remain excludable from gross income for federal income tax purposes to the same extent it was, in the opinion of such counsel, so excludable on the Closing Date. VPSA shall offer to amend this Agreement whenever it shall in good faith determine, based on an opinion of its counsel, that any one or more of the restrictions or requirements imposed by this Agreement upon the Local Units, or any of them, may be removed or modified without adversely

affecting the exclusion of interest on VPSA's Bonds from gross income for federal income tax purposes.

Section 22. Notices.

Whenever notice is to be given pursuant to the provisions of this Agreement, such notice shall be deemed to have been satisfactorily given on the same day if hand delivered or telecopied during regular business hours or three (3) days after the date of postmark if mailed, first class mail, postage prepaid, as follows:

If to VPSA, to	Virginia Public School Authority c/o State Treasurer
by hand	3rd Floor, James Monroe Building 101 North 14th Street Richmond, Virginia 23219
by mail	Post Office Box 1879 Richmond, Virginia 23218-1879
by telecopier	(804) 225-3187
in any case	Attention: Public Finance Manager
If to the Depository, to	Wachovia Bank, N.A.
By hand	1021 East Cary Street Richmond, Virginia 23219
By mail	Post Office Box 27602 Richmond, Virginia 23261
By telecopier	(804) 697-7370
In any case	Attention: Richard H. Grattan Senior Vice President
If to the Investment Manager, to	Evergreen Investment Management Company LLC
By hand	951 East Byrd Street Riverfront Plaza, 6th Floor Richmond, Virginia 23219

By mail

951 East Byrd Street
Riverfront Plaza, 6th Floor
Richmond, Virginia 23219

By telecopier

(804) 344-6520

In any case

Attention: Al Samper
Senior Vice President

If to a Local Unit, to the address or telecopier number indicated on the page of this Agreement executed by such Local Unit.

Any such address or number may be changed by written notice given to all the other parties to this Agreement and the Investment Manager, except that a Local Unit need give such notice only to VPSA, the Depository and the Investment Manager.

Section 23. No Third Party Beneficiaries.

Except as herein otherwise expressly provided, nothing in this Agreement expressed or implied is intended or shall be construed to confer upon any person, firm or corporation other than the parties hereto any right, remedy or claim, legal or equitable, under or by reason of this Agreement or any provision hereof, this Agreement and all its provisions being intended to be and being for the sole and exclusive benefit of the parties hereto.

Section 24. Severability.

In case any one or more of the provisions of this Agreement shall for any reason be held to be illegal or invalid, such illegality or invalidity shall not affect any other provision of this Agreement and this Agreement shall be construed and enforced as if such illegal or invalid provision had not been contained herein. In case any covenant, stipulation, obligation or agreement contained in this Agreement shall for any reason be held to be in violation of law, then such covenant, stipulation, obligation or agreement shall be deemed to be the covenant, stipulation, obligation or agreement of the affected party to the full extent permitted by law.

Section 25. No Personal Liability.

All covenants, stipulations, obligations and agreements of VPSA contained in this Agreement shall be deemed to be covenants, stipulations, obligations and agreements of VPSA to the full extent authorized by the laws and permitted by the Constitution of Virginia. No covenant, stipulation, obligation or agreement contained herein shall be deemed to be a covenant, stipulation, obligation or agreement of any present or future member, employee or agent of VPSA or any Local Unit in his individual capacity. No commissioner, officer, employee or agent of VPSA or any Local Unit shall incur any personal liability in acting or proceeding or in not acting or not proceeding, in good faith, reasonably and in accordance with the terms of this Agreement and the applicable laws of the Commonwealth of Virginia.

Section 26. Applicable Law.

This Agreement is executed with the intent that the laws of the Commonwealth of Virginia shall govern its construction.

Section 27. Counterparts.

This Agreement may be executed in one or more counterparts.

Section 28. Effective Date; Term.

This Agreement shall take effect on the Closing Date and shall expire on the date on which VPSA shall make the final rebate payment required by Part D of the Letter Agreement.

Virginia Public School Authority

By: _____

Name: Richard A. Davis

Title: Assistant Secretary and
Assistant Treasurer

Wachovia Bank, N.A.

By: _____

Name: Richard H. Grattan

Title: Senior Vice President

**Evergreen Investment Management Company
LLC**

By: _____

Name: Al Samper

Title: Senior Vice President

NAME OF ISSUER: _____

Page 1 of 2

A. Address for notices, by hand, by mail and by telecopier, if any, as referred to in Section 22 above:

B. Authorized Representative(s):

Name

Title

Specimen Signature

C. Local School Bonds Closing Date (if not November 6, 2003, enter Date of Issue of Local School Bonds): _____

D. Is the Small Issuer Exception applicable to this Issuer? (If yes, an opinion of Bond Counsel and Issuer's covenant is required as per Section 9 herein).

Yes _____ No _____

E. Eighteen Month Exception Estimated Investment Earnings for purposes of the Eighteen-Month Exception: \$_____

If any proceeds are used to refund prior debt, please indicate:

(a) proceeds used to refund prior debt: \$_____

(b) issuance expense allocable to the refunding portion of the issue:
\$_____

NAME OF ISSUER: _____

Page 2 of 2

F. Elections with respect to Two-Year Exception:

1. Election to use actual facts in lieu of reasonable expectations for purposes of the Two-Year Exception:

Yes _____ No _____

2. Estimated Investment Earnings: \$ _____

3. If any proceeds are used to refund prior debt, please indicate:

(a) proceeds used to refund prior debt: \$ _____

(b) issuance expenses allocable to the refunding portion of the issue:
\$ _____

4. Bifurcation Election to treat the portion of the issue used for construction as a separate issue:

Yes _____ No _____

If yes, state the portion of the issue used for construction and non-construction, respectively; (the sum of the following amounts must equal the issue price of \$ _____ reduced by any portion used for refunding purposes):

(a) portion of the issue used for construction: \$ _____

(b) issuance expenses allocable to the construction portion of the issue: \$ _____

(c) portion of the issue used for non-construction: \$ _____

(d) issuance expenses allocable to the non-construction portion of the issue: \$ _____

5. Penalty Election to pay One and One-Half Percent Penalty in lieu of rebate:

Yes _____ No _____

City/County

By: _____

Name: _____

Title: _____

LOCAL SCHOOL BONDS- NON-SUBSIDY

Local Unit

Principal Amount of Bonds

Purchase Price

TOTAL:

\$[_____]

\$[_____]

LOCAL SCHOOL BONDS- SUBSIDY

Local Unit

Principal Amount of Bonds

Purchase Price

Total:

\$[_____]

\$[_____]

Exhibit B

[No requisition is required in conjunction with a check payable to a vendor in respect of an invoice due and payable.]

**FORM OF REQUISITION FOR REIMBURSEMENT BY
PRE-AUTHORIZED WIRE**

[To be used for REIMBURSEMENT to a Local Unit from Local School Bond proceeds for an invoice or obligation that has been paid and is eligible for payment from Local School Bond proceeds.]

Evergreen Investment Management Company LLC
901 East Byrd Street
Riverfront Plaza, 6th Floor
Richmond, Virginia 23219

**VIRGINIA PUBLIC SCHOOL AUTHORITY [Name of Local Unit]
BOND PROCEEDS ACCOUNT - SERIES 2003 C ISSUE
Requisition from the Principal Subaccount**

Requisition No. _____
("item number")

This requisition for payment from the Principal Subaccount of the Proceeds Account is submitted in accordance with the provisions of the Proceeds Agreement dated November 6, 2003, among the Virginia Public School Authority ("VPSA"), the undersigned (the "Local Unit") and the other units of local government signatory thereto, Evergreen Investment Management Company LLC, as Investment Manager and Wachovia Bank, N.A., as Depository. You are hereby notified that you are authorized and directed by the Local Unit to pay the following obligation from the Principal Subaccount:

1. The item number of such payment: ____
2. The amount[s] to be paid: \$_____
3. Purpose by general classification for which such obligation was incurred:

4. The date(s) the expenditure(s) was/were made:

To reimburse the Local Unit for costs of the _____ School paid by the Local Unit through ____, 20__ as follows:

5. A copy of each supporting [invoice, work order, statement] for which reimbursement is to be made is attached hereto.

6. The obligation[s] in the stated amount[s] have been paid, and each item thereof is a proper charge against the proceeds of the Local Unit's Proceeds Account and has not been the subject of a previous withdrawal from the Proceeds Account.

7. All of which is hereby certified.

Dated _____

[Name of Local Unit]

By: _____
Authorized Local Unit
Representative

**Virginia Public School Authority
101 North 14th Street
Richmond, Virginia 23219**

**LETTER AGREEMENT
November 6, 2003**

**Re: Custody, Investment, and
Disbursement of Proceeds of Local School
Bonds Purchased by the Virginia Public School
Authority with the Proceeds of Its \$[_____]
School Financing Bonds (1997 Resolution)
Series 2003 C**

This **LETTER AGREEMENT**, dated the date shown above (this "Letter Agreement"), is between the Authority and the Investment Manager. All capitalized terms used herein shall have the meaning given to them in Part E of this Letter Agreement or in Section 2 of the Proceeds Agreement to which this Letter Agreement is attached as Exhibit C.

With respect to the VPSA's Bonds, the Code requires that an amount equal to the VPSA's Rebate Requirement be paid to the United States Treasury. With respect to each issue of Local School Bonds, the Code requires that an amount equal to the Local Unit's Rebate Requirement be paid to the United States Treasury. Accordingly, VPSA hereby directs the Investment Manager, as provided below, to assist VPSA and each Local Unit to comply with the VPSA's Rebate Requirement and the respective Local Unit's Rebate Requirement.

To enable VPSA and the Local Units to fulfill their respective obligations under the Proceeds Agreement and to make such payments, and to enable the Investment Manager to fulfill its obligations under this Letter Agreement, the Investment Manager will prepare, on or before December 1, 2004 and each December 1 thereafter, the Investment Reports for VPSA as of the preceding November 6 and each Local Unit as of the preceding November 6. On the basis of such Investment Reports, VPSA shall cause the Rebate Calculation Agent to prepare the Local Unit Rebate Computation setting forth the Local Unit Rebate Requirement as of each Computation Date for each Local Unit with respect to its issue of Local School Bonds as described in paragraph 3 of Part B hereto. In addition, the Investment Manager will, based on the Rebate Report, transfer, within thirty (30) days after the Computation Date of each Local Unit, from its Principal Subaccount, if necessary, to its Income Subaccount, the amount required so that the amount to the credit of the Income Subaccount of each Local Unit shall equal its Local Unit Rebate Requirement.

A. Investment Report

With respect to all Nonpurpose Investments acquired during the term of this Letter Agreement with Gross Proceeds of each issue of Local School Bonds, the Investment Manager shall maintain separate Investment Reports for each issue of Local School Bonds.

The Investment Report for each Local Unit shall reflect the investments made with respect to its Proceeds Account.

B. Rebate Computation on Local School Bonds

VPSA shall compute each Local Unit's Rebate Requirement with respect to its issue of Local School Bonds in accordance with the procedure described below:

1. As of each Computation Date, VPSA shall cause the Rebate Calculation Agent to determine the Future Value of all nonpurpose payments made with respect to the Nonpurpose Investments purchased with or allocated to the Gross Proceeds of the Local School Bonds, as well as any rebate payments made, to such Computation Date in accordance with the requirements of the Treasury Regulations. Unless VPSA shall otherwise direct, transaction costs incurred in acquiring, carrying, selling or redeeming such obligations, shall be accounted for as provided in the Information Statement.

2. As of each Computation Date, VPSA shall cause the Rebate Calculation Agent to determine the Future Value of all nonpurpose receipts received with respect to the Nonpurpose Investments purchased with or allocated to the Gross Proceeds of the Local School Bonds, as well as any rebate payments recovered, to such Computation Date in accordance with the requirements of the Treasury Regulations.

3. As of each Computation Date, VPSA shall subtract the amount computed pursuant to paragraph 1 from the amount computed pursuant to paragraph 2. Such amount shall be the "Local Unit Rebate Requirement" as of the Computation Date.

4. Each of the Local Units has covenanted in Section 17 of the Proceeds Agreement not to charge its general fund or otherwise set aside or earmark funds with which to pay debt service on its Local School Bonds (other than as a budget item) prior to the date of payment thereof to VPSA.

5. Except as provided in Section 9(A)(4) of the Proceeds Agreement, the Local Unit Rebate Requirement may be treated as being met and no rebate computation shall be required with respect to the proceeds of the VPSA's Bonds applied to purchase such Local Unit's Local School Bonds if the VPSA receives the opinions and covenants or certification described in Section 9A of the Proceeds Agreement that a Local Unit meets the requirements of the (a) Six-Month Exception, (b) Eighteen-Month Exception, (c) Small Issuer Exception, or (d) Two-Year Exception, subject to the provisions described below.

(a) Six-Month Exception. Notwithstanding the fact that all of the Gross Proceeds of the Local School Bonds are spent within six (6) months of the date of issue and no other Gross Proceeds of the Local School Bonds are anticipated for the remainder of the term of the issue, if Gross Proceeds of the Local School Bonds become available after the end of the initial six-month period, the Local Unit Rebate Requirement shall be computed with respect to such Gross Proceeds in accordance with the procedure described above.

(b) Eighteen-Month Exception. Notwithstanding the fact that all of the Gross Proceeds of the Local School Bonds are spent within eighteen (18) months of the date of

issue and no other Gross Proceeds of the Local School Bonds are anticipated for the remainder of the term of the issue, if Gross Proceeds of the Local School Bonds become available after the end of the initial eighteen-month period, the Local Unit Rebate Requirement shall be computed with respect to such Gross Proceeds in accordance with the procedure described above.

(c) Small Issuer Exception. If a Local Unit delivers to VPSA no later than the end of calendar year 2003 (i) the opinion of nationally recognized bond counsel that the Local School Bonds of such Local Unit purchased by VPSA with the proceeds of the VPSA's Bonds will be treated as meeting the requirements of Code Sections 148 (f)(2) and (3) pursuant to Code Section 148 (f)(4)(D) and (ii) the Local Unit's covenant that it shall provide for the payment of or reimburse VPSA for its payment of the Local Unit Rebate Requirement in the event that the Local School Bonds of such Local Unit fail to meet all the requirements of the Small Issuer Exception, then no rebate computation shall be made with respect to the proceeds of VPSA's Bonds applied to purchase such Local School Bonds. Although the Local School Bonds of a Local Unit may qualify for the Small Issuer Exception, custody, investment and disbursement of the proceeds of the VPSA's Bonds applied to the purchase of the Local Unit's Local School Bonds shall continue under the Proceeds Agreement, and the Investment Manager shall continue to provide an Investment Report for such Local Unit.

Notwithstanding the foregoing, the [] Bonds and the refunding portions of the [] Bonds do not qualify for the Eighteen Month Exception or the Two Year Exception. Furthermore, with respect to the amounts on deposit in the [] Transferred Proceeds Account, such amounts will be taken into account for purposes of computing the Local Unit Rebate Requirement for [], respectively as applicable, but only if the [], respectively as applicable, do not qualify for one of the Spending Exceptions or if the [], respectively as applicable, fail to meet all of the requirements of the Small Issuer Exception.

6. In addition to the foregoing, no rebate computation shall be required with respect to the proceeds of the VPSA's Bonds applied to purchase a Local Unit's Local School Bonds if a Penalty Election has been made on behalf of the Local Unit with respect to such Local School Bonds.

C. Aggregate Rebate Computation on Local School Bonds

In the event that the Treasury Regulations require that the Local Units' Rebate Requirements be calculated in the aggregate, VPSA shall compute the Aggregate Local Units' Rebate Requirement in accordance with the procedure set forth below.

1. As of each Computation Date, VPSA shall cause the Rebate Calculation Agent to determine the Future Value of all nonpurpose payments made with respect to the Nonpurpose Investments purchased with or allocated to the Gross Proceeds of all of the Local School Bonds in the aggregate (except those qualifying for one of the Rebate Exceptions or those that have

made the Penalty Election), as well as any rebate payments made, to such Computation Date in accordance with the requirements of the Treasury Regulations.

2. As of each Computation Date, VPSA shall cause the Rebate Calculation Agent to determine the Future Value of all nonpurpose receipts received with respect to the Nonpurpose Investments purchased with or allocated to the Gross Proceeds of all of the Local School Bonds in the aggregate (except those qualifying for one of the Rebate Exceptions or those that have made the Penalty Election), as well as any rebate receipts recovered, to such Computation Date in accordance with the requirements of the Treasury Regulations.

3. As of each Computation Date, VPSA shall subtract the amount computed pursuant to paragraph 1 from the amount computed pursuant to paragraph 2. Such amount shall be the "Aggregate Local Units' Rebate Requirement" as of the Computation Date.

D. Rebate Payment

1. Upon the calculation of the Local Unit Rebate Requirement for each Local Unit, VPSA shall notify the Investment Manager thereof. The Investment Manager shall promptly charge the Principal Subaccount of a Local Unit to the extent the amount on deposit to the credit of its Income Subaccount is less than its Local Unit Rebate Requirement and credit its Income Subaccount with an amount such that the balance to the credit of the Income Subaccount is equal to such Local Unit Rebate Requirement (taking into account prior amounts credited to the Income Subaccount including investment income thereon). To the extent that the amount on deposit in the Principal Subaccount is insufficient to provide for a deposit to the Income Subaccount such that the balance in the Income Subaccount is equal to the Local Unit Rebate Requirement for the Local Unit, the Investment Manager shall advise VPSA and such Local Unit of the amount of the deficiency so that the Local Unit may promptly transfer to the Depository the amount required pursuant to Section 12 of the Proceeds Agreement.

2. In addition to the computation of the Local Units' Rebate Requirement, VPSA shall calculate its Rebate Requirement with respect to Nonpurpose Investments that were acquired with the Gross Proceeds of the VPSA's Bonds in accordance with the procedures set forth in the Tax Certificate executed by VPSA in connection with the issuance of the VPSA's Bonds.

3. The Local Unit Rebate Requirement for each Local Unit, if a positive number, shall be paid at the direction of VPSA to the United States in installments. Each payment shall be made not later than sixty (60) days after each Computation Date. Each payment must be in an amount not less than the total of ninety percent (90%) of the Local Unit Rebate Requirement for each Local Unit as of each Installment Computation Date. All of the Local Unit Rebate Requirement must be paid to the United States within sixty (60) days after the Final Computation Date. Payment shall be made to the Internal Revenue Service Center, Ogden, Utah 84201 and be accompanied by Form 8038-T. VPSA shall make such payment as required. Investment Reports and records of the determinations made hereunder shall be retained by the Investment Manager and by VPSA, respectively, until six (6) years after the retirement of the last of VPSA's Bonds.

E. Definitions

In addition to the words and terms defined in the Proceeds Agreement to which this Letter Agreement is attached as Exhibit C, the following words and terms shall have the following meanings:

“Bond Resolution” shall mean the resolution of the Authority adopted on October 23, 1997, as amended and restated on October 5, 1998, and as supplemented.

“Fair Market Price” shall mean the purchase price and disposition price of a Nonpurpose Investment. Any Nonpurpose Investment purchased must be purchased at the Fair Market Price. An investment that is not of a type traded on an established market, within the meaning of Section 1273 of the Code, is rebuttably presumed to be acquired or disposed of at a price that is not equal to its fair market value. Accordingly, a premium may not be paid to adjust the yield on an investment, a lower interest rate than is usually paid may not adjust the yield on an investment and no transaction may result in a smaller profit or larger loss than would have resulted if the transaction had been at arm’s-length and had the yield with respect to the Bonds not been relevant to either party. Pursuant to Treasury Regulation Section 1.148-5(d), the following are safe harbors for establishing the Fair Market Price of certificates of deposit and guaranteed investment contracts:

(i) Certificate of Deposit. A certificate of deposit with a fixed interest rate, fixed payment schedule and a substantial penalty for early withdrawal will be deemed purchased for fair market value if the yield on the certificate of deposit is not less than (i) the yield on reasonably comparable direct obligations of the United States and (ii) the highest yield published or posted by the provider to be currently available from the provider on reasonably comparable certificates offered to the public. See Section 1.148-5(d)(6)(ii) of the Treasury Regulations.

(ii) Investment Agreement. Investments pursuant to a guaranteed investment contract will be regarded as being made at fair market value if

(a) A bona fide solicitation for a guaranteed investment contract is made that satisfies all of the following requirements: (A) the bid specifications are in writing and are timely forwarded to potential providers, (B) the bid specifications include all material terms that may directly or indirectly affect the yield or the cost of the guaranteed investment contract, (C) the bid specifications include a statement notifying potential providers that submission of a bid is a representation that the potential provider did not consult with any other potential provider about its bid, that the bid was determined without regard to any other formal or informal agreement that the potential provider has with the Issuer or any other person (whether or not in connection with the issuance of the Bonds), and that the bid is not being submitted solely as a courtesy to the Issuer or any other person for purposes of satisfying the requirements contained in Section 1.148-5(d)(6)(iii)(B)(1) or (2) of the Treasury Regulations, (D) the terms of the bid specifications are commercially reasonable in that there is a legitimate business purpose for each term other than to increase the purchase price or reduce the yield of the guaranteed investment contracts, (E) the terms of the solicitation take into account the reasonably expected deposit and drawdown schedule for the amounts

to be invested, (F) all potential providers have an equal opportunity to bid and no potential provider is given the opportunity to review other bids (i.e., a “last look”) before providing a bid, (G) in those cases where the Issuer engages a bidding agent to conduct the bidding, such agent did not bid to provide the investment, and (H) at least three reasonably competitive providers are solicited for bids. A “reasonably competitive provider” is a provider that has an established industry reputation as a competitive provider of investments of the same type as such guaranteed investment contract;

(b) At least three bona fide bids on the guaranteed investment contract are received from providers that have no material financial interest in the Bonds. The following are deemed to have a material financial interest in the Bonds: (A) the lead purchaser in a negotiated underwriting transaction until 15 days after the issue date of the issue, (B) any entity acting as a financial advisor with respect to the purchase of the guaranteed investment contract at the time the bid specifications are forwarded to potential providers, and (C) a provider that is a related party to a provider that has a material financial interest in the execution and delivery of the Bonds;

(c) At least one of the three bids received is from a reasonably competitive provider, as described above;

(d) The winning bidder provides a certificate that (A) lists the recipients, amounts and purposes of any brokerage fee, placement fee, commission or administrative costs that it is paying (or expects to pay) to third parties in connection with supplying the guaranteed investment contract, (B) states that the yield on the guaranteed investment contract is not less than the yield available from the provider on reasonably comparable guaranteed investment contracts offered to other persons from sources of funds other than gross proceeds of tax-exempt obligations, and (C) in those agreements wherein the Issuer deposits amounts (other than amounts deposited in debt service funds or reasonably required reserve or replacement funds) states that the Issuer’s draw-down schedule was a significant factor in determining the terms of the guaranteed investment contract;

(e) The highest yielding guaranteed investment contract for which a bona fide bid was made is purchased (determined net of broker’s fees, if any); and

(f) The following records are retained with the bond documents until three years after the last outstanding Bond is redeemed: (A) a copy of the guaranteed investment contract, (B) the receipt or other record amount actually paid for the guaranteed investment contract, including a record of any administrative costs paid and the certification under subsection (d) hereof, (C) for each bid that is submitted, the name of the person and entity submitting the bid, the time and date of the bid, and the bid results, and (D) the bid solicitation form and, if the terms of the guaranteed investment contract deviated from the bid

solicitation form or a submitted bid is modified, a brief statement explaining the deviation and stating the purpose for the deviation.

“Future Value” of a payment or receipt at the end of any period is determined using the economic accrual method and equals the value of that payment or receipt when it is paid or received (or treated as paid or received), plus interest assumed to be earned and compounded over the period at a rate equal to the Yield on the VPSA’s Bonds, using the same compounding interval and financial conventions used to compute that yield.

“Gross Proceeds” shall have the meaning ascribed to such term in Section 148 of the Code and shall mean:

(a) amounts actually received or constructively received by VPSA from the sale of the VPSA’s Bonds and the amounts actually or constructively received by the Local Units from the sale of the Local School Bonds, other than any interest accruing on the VPSA’s Bonds from the dated date to the issue date of such bonds;

(b) amounts treated as Transferred Proceeds (as defined in Treasury Regulations Section 1.148-9) of the VPSA’s Bonds or the Local School Bonds, if any;

(c) amounts that are reasonably expected to be or are in fact used to pay debt service on the Bonds including amounts in the sinking fund portion of the 1997 Income Fund under the Bond Resolution and the 1997 Sinking Fund under the Bond Resolution;

(d) securities or obligations pledged by the VPSA or Local Unit as security for payment of debt service with respect to the VPSA’s Bonds or the Local School Bonds;

(e) amounts received with respect to any investments acquired with Gross Proceeds for the purpose of carrying out the governmental purpose for which the VPSA’s Bonds or the Local School Bonds were issued, including the Local School Bonds, except that such amounts shall not include amounts, if any, that are properly allocable to qualified administrative costs recoverable under Treasury Regulation Section 1.148-5(e) or to the higher yield permitted under Treasury Regulation Section 1.148-2(d) or Section 143(g) of the Code;

(f) amounts treated as “replacement proceeds” of the VPSA’s Bonds or the Local School Bonds within the meaning of section 1.148-1(c) of the Treasury Regulations;

(g) any funds that are part of a reserve or replacement fund for the VPSA Bonds or Local School Bonds; and

(h) amounts received as a result of investing any Gross Proceeds.

Gross Proceeds shall include amounts that are on deposit in the Income Subaccount to the extent that such amounts are derived from Gross Proceeds of the VPSA's Bonds or the Local School Bonds. The determination of whether an amount is included within this definition shall be made without regard to whether the amount is credited to any fund or account established under the Bond Resolution, or whether the amount is subject to the pledge of the Bond Resolution.

For purposes of subsection (d) above, an amount is pledged to pay principal or interest with respect to VPSA's Bonds or Local School Bonds if there is a reasonable assurance that the amount will be available for such purposes in the event that the VPSA or Local Unit encounters financial difficulties. An amount can be indirectly pledged to pay principal or interest with respect to VPSA's Bonds or Local School Bonds if it is pledged to a guarantor of either or both such bonds. An amount may be "negatively" pledged to pay principal or interest with respect to VPSA's Bonds or Local School Bonds if it is held under an agreement to maintain the amount at a particular level for the direct or indirect benefit of the holders of the bonds or a guarantor of the bonds. An amount is not negatively pledged however if (i) VPSA or the Local Units may grant rights in the amount that are superior to the rights of the holders of the bonds or a guarantor of the bonds, or (ii) the amount does not exceed reasonable needs for which it is maintained, the required level is tested no more frequently than every 6 months, and the amount may be spent without any substantial restriction other than a requirement to replenish the amount by the next testing date.

If a decision is made to apply any insurance or condemnation proceeds to the redemption of VPSA's Bonds or Local School Bonds instead of using such proceeds for repair or replacement, any such proceeds become Gross Proceeds on the date of such a decision.

The definition of Gross Proceeds has been set out in full for the sake of completeness. With respect to each Local School Bond, all of the Gross Proceeds are on deposit in such Local Unit's Proceeds Account except to the extent that the Local School Bonds may be part of a composite issue under Treasury Regulation §1.150-1(c), or the Local Unit may have retained Transferred Proceeds. With respect to the VPSA's Bonds, all of its Gross Proceeds are the total of the amounts on deposit in the Proceeds Accounts of the Local Units, except as provided above, and the amounts on deposit in the sinking fund portion of its 1997 Income Fund under the Bond Resolution and the 1997 Sinking Fund under the Bond Resolution.

"Investment Report" shall mean the record of investment activity maintained by the Investment Manager with respect to the investment property and the Local Units, as described in the Letter of Instructions to the Investment Manager from the Treasury Board of the Commonwealth of Virginia dated [May 1, 2000].

"Local Unit's Rebate Requirement" shall mean the sum of (i) the excess of (A) the aggregate amount earned on all Nonpurpose Investments acquired with the Gross Proceeds of the Local School Bonds over (B) the amount that would have been earned if the Nonpurpose Investments had a Yield equal to the VPSA's Bond plus (ii) any income attributable to the excess described in clause (i).

“Nonpurpose Investments” shall mean any security, obligations, annuity contract or any other investment-type property (as such term is defined in Section 1.148-1(b) of the Treasury Regulations) that is not acquired to carry out the governmental purpose of the VPSA’s Bonds or the Local School Bonds. Nonpurpose Investments shall not include Tax-Exempt Investments. Any Nonpurpose Investments shall be purchased by the Investment Manager only if the purchase price of the Nonpurpose Investment is the Fair Market Price.

“Rebate Calculation Agent” shall mean that accounting firm with a favorable national reputation in the field of the calculation of amounts subject to rebate to the United States under Section 148(f) of the Code and the Temporary Regulations that has been appointed under Section 9.2 of the Contract or by VPSA.

“Tax-Exempt Investments” shall include:

(i) obligations the interest on which is excludable from gross income for federal income tax purposes, and not treated as an item of tax preference under Section 57(a)(5)(C) of the Code,

(ii) stock in a regulated investment company to the extent that at least 95% of the income to the holder of the interest is excludable from gross income under Section 103 of the Code, and

(iii) certificates of indebtedness issued by the United States Treasury pursuant to Demand Deposit State and Local Government Series program described in 31 CFR part 344 (“SLGs”).

“Treasury Regulations” shall mean the Treasury Regulations Sections 1.148-0 through 1.148-11, 1.149(b)-1, 1.149(d)-1, 1.149(e)-1, 1.149(g)-1, Section 1.150-1 and Section 1.150-2, as amended from time to time hereafter, and other regulations promulgated under Section 148 of the Code.

“VPSA’s Rebate Requirement” shall mean the sum of (i) the excess of (A) the aggregate amount earned on all Nonpurpose Investments acquired with the Gross Proceeds of VPSA’s Bonds over (B) the amount that would have been earned if the Nonpurpose Investments had a Yield equal to VPSA’s Bond Yield plus (ii) any income attributable to the excess described in clause (i).

“Yield”, for purposes of this Letter Agreement, shall be calculated pursuant to the Treasury Regulations by means of an actuarial method of yield calculation whereby “yield” means that discount rate which, when used in computing the present value of all the unconditionally payable payments of principal and interest and all the payments for a qualified guarantee paid and to be paid with respect to the bond, produces an amount equal to the issue price of the bond. For purposes of this Letter Agreement, the Yield on VPSA’s Bonds is [_____]%. The Yield on investments must be computed by the use of the same frequency interval of compounding interest as is used in computing the Yield on the VPSA’s Bonds and the Local School Bonds.

F. Amendments

In order to comply with the covenants by VPSA and each of the Local Units regarding compliance with the requirements of the Code and the exclusion from federal income taxation of the interest paid and to be paid on the Local School Bonds and VPSA's Bonds, the procedures described in this Letter Agreement may be modified as necessary, based on the advice of counsel, to comply with rulings, regulations, legislation or judicial decisions as may be applicable to such bonds.

Very truly yours,

VIRGINIA PUBLIC SCHOOL AUTHORITY

By:_____

Name: Richard A. Davis

Title: Assistant Secretary and
Assistant Treasurer

Accepted: **Evergreen Investment Management Company LLC**

By:_____

Name: Al Samper

Title: Senior Vice President

AUTHORIZED REPRESENTATIVES

The following are the Authorized Representatives of Virginia Public School Authority, Wachovia Bank, N.A. and Evergreen Investment Management Company LLC:

VIRGINIA PUBLIC SCHOOL AUTHORITY:

<u>Name</u>	<u>Title</u>	<u>Specimen Signature</u>
Richard A. Davis	Assistant Secretary and Assistant Treasurer	
Dora D. Fazzini	Assistant Secretary and Assistant Treasurer	

WACHOVIA BANK, N.A.:

<u>Name</u>	<u>Title</u>	<u>Specimen Signature</u>
Richard H. Grattan	Senior Vice President	

EVERGREEN INVESTMENT MANAGEMENT COMPANY LLC:

<u>Name</u>	<u>Title</u>	<u>Specimen Signature</u>
Al Samper	Senior Vice President	